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August 30, 2004

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Room TW-A325  
Washington, D.C. 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses  
and Section 214 Authorizations from Ameritech Corporation, Transfer, To SBC  
Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Dortch:

Pursuant to Appendix C (Merger Conditions) regarding SBC Communications Inc.'s (SBC) compliance with the conditions set forth in the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger, SBC submits herein the reports of its independent auditor, Ernst & Young LLP, regarding its compliance during the Evaluation Period.<sup>1</sup>

Once SBC has had an opportunity to thoroughly conduct a review of the reports and the auditor's workpapers, SBC will be prepared to respond to or otherwise address any issues contained in them.

If you have any questions regarding this report, please contact me at (202) 326-8919.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle A. Thomas". The signature is fluid and cursive, with the first name "Michelle" and last name "Thomas" clearly distinguishable.

Attachments

Cc: Mr. Hillary DeNigro  
Mr. William Dever  
Mr. Trent Harkrader  
Mr. Hugh Boyle  
Ms. Mika Savir  
Mr. Pete Young  
Ms. Diana Lee

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<sup>1</sup> The Evaluation Period is defined for each Merger Condition in Attachment A of Ernst & Young Report of Independent Accountants-Compliance with the Merger Conditions, attached to this letter.

**SBC/Ameritech Merger Conditions  
2003 Compliance Audit and Agreed-Upon Procedures Reports  
Report Date August 27, 2004**

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**SBC/Ameritech Merger Conditions**  
**2003 Compliance Audit and Agreed-Upon Procedures Reports**  
**Report Date August 27, 2004**

**Tab 1**

## Report of Independent Accountants

To the Management of SBC Communications Inc.

1. We have examined SBC Communications Inc.'s (the "Company" or "SBC") compliance with the Merger Conditions<sup>1</sup> during the Evaluation Period<sup>2</sup>, and management's assertion, included in the accompanying Report of Management on Compliance with the Merger Conditions ("Report of Management"), that SBC complied with the Merger Conditions for the Evaluation Period, except as noted therein. Management is responsible for the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion based on our examination.
2. At the direction of the FCC Staff and the Company, this examination does not address compliance with Condition 1. Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP. As required by Condition 26, "Compliance Program," the Company filed an annual compliance report on March 15, 2004, which included information related to Condition 1. The procedures performed for Condition 1, which were agreed to by the FCC and SBC, contained procedures to test the accuracy and completeness of the Company's annual compliance report as it relates to Condition 1.
3. Except as discussed in paragraphs two and four a of this report, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with the requirements referenced above and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for

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<sup>1</sup> Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). In addition, the term Merger Conditions also includes Section 3, "True-up Process" documented in the "Compliance Plan of SBC Communications Inc." ("Compliance Plan") attached to the "Consent Decree" set forth in the Order and Consent Decree released March 20, 2003 by the FCC in File No. EB-02-IH-0382 (hereafter "Consent Decree"). At the direction of the FCC Staff, E&Y reported on the Company's compliance with Sections 1 and 2 of the Compliance Plan attached to the Consent Decree in conjunction with our attestation examination of the Company's compliance with the Merger Conditions for the year ended December 31, 2002. This examination did not include procedures necessary to determine compliance with the FCC's pricing rules.

<sup>2</sup> The Evaluation Period is defined for each Merger Condition in Attachment A.

To the Management of SBC Communications Inc.

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our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

4. Our examination disclosed the following material noncompliance with the Merger Conditions applicable to the Company during the Evaluation Period:
  - a. Condition 7, "Carrier-to-Carrier Performance Plan," requires the Company to report, on a monthly basis, operational performance in 20 measurement categories specified in the Merger Conditions. Certain of these measurements contained errors as described in Attachment B to this report. Additionally, Condition 7 requires the Company to make voluntary payments to the U.S. Treasury based on the results of the 20 measurements reported. We have tested the accuracy of the calculation of voluntary payments calculated prior to the impact of the errors described in Attachment B to determine whether the required payment to the U.S. Treasury was remitted, noting no exceptions. Additionally, the Company has not restated certain errors noted on Attachment B. Accordingly, we were unable to, and do not, express an opinion on the accuracy of the Company's compliance with the requirement to accurately calculate and remit voluntary payments for the Evaluation Period.
  - b. Condition 14, "Carrier-to-Carrier Promotions: Unbundled Loop Discount," requires the Company to provide to Competitive Local Exchange Carriers ("CLECs") discounted prices on monthly recurring charges for unbundled local loops used in the provision of local service to residential end user customers. From April 2002 to November 2002, certain loops ordered by CLECs in the SBC Midwest<sup>3</sup> region were incorrectly provisioned with a business class of service, rather than a residential class of service. The orders placed from April 2002 to November 2002 were not correctly identified as residential orders until June 2003. Similar orders placed since November 2002 have been correctly classified as residential. In addition, one CLEC tested did not receive the discount on certain loops ordered prior to closure of the offer window in the SBC Midwest region.
  - c. Condition 15, "Carrier-to-Carrier Promotions: Resale Discount," requires the Company to provide discounts to CLECs for orders of certain products, including residential resale discounts. The Company was required to apply these discounts within 60 days of the initial billing for the service through credits, true-ups or other billing mechanisms. However, during the Evaluation Period, certain discounts were not provided within 60 days of the initial billing for the service as required by the Merger Conditions or were not provided. In Southwestern Bell Telephone, L.P. ("SWBT") and Pacific Bell Telephone ("PB"), some CLEC

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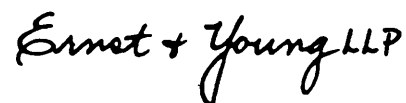
<sup>3</sup> The "SBC Midwest region" refers to the states of Illinois, Indiana, Michigan, Ohio and Wisconsin.

To the Management of SBC Communications Inc.

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orders did not receive discounts on certain eligible lines within 60 days of the initial billing for the service as required by the Merger Conditions for resold services.

- d. Condition 26, "Internal Compliance Program," requires the Company to file, for public record, an annual compliance report detailing the Company's compliance with the Merger Conditions. The Company filed its annual compliance report covering the year ended December 31, 2003, on March 15, 2004, as required. The filed annual compliance report did not note the material noncompliance related to Condition 14, "Unbundled Loop Discount," as discussed in paragraph five b as it relates to one CLEC tested not receiving discounts on loops orders prior to the closure of the offer window and Condition 15, "Resale Discount," as discussed in paragraph five c as it relates to certain CLEC lines in PB not receiving the eligible discount.
5. In our opinion, limited as to Conditions 1, 7, and certain aspects of Condition 26 as discussed in paragraphs two and four a of this report, and, except for the material noncompliance described in paragraph four above, the Company complied, in all material respects, with the Merger Conditions for the Evaluation Period, including the filing of an accurate annual compliance report, the Company providing the FCC with timely and accurate notice pursuant to specific notification requirements, and the Company providing telecommunications carriers and regulators with accurate and complete performance data.
6. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



August 27, 2004

## Attachment A

The Company and the FCC Staff agreed to the following definition of the Evaluation Period by Condition:

<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
1	Separate Affiliate For Advanced Services	Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP.
2	Discounted Surrogate Line Sharing Charges	Condition sunset prior to January 1, 2003.
3	Advanced Services OSS	January 1, 2003 through December 31, 2003.
4	Access to Loop Information for Advanced Services	January 1, 2003 through October 8, 2003.
5	Loop Conditioning Charges and Cost Studies	Condition sunset prior to January 1, 2003.
6	Non-discriminatory Rollout of xDSL Services - Urban	<p>January 1, 2003 through April 8, 2003 for California, Connecticut, Illinois, Kansas, Michigan, Missouri, Ohio, Oklahoma and Texas.</p> <p>January 1, 2003 through July 13, 2003 for Arkansas and Wisconsin.</p> <p>January 1, 2003 through December 31, 2003 for Indiana.</p> <p>Condition sunset prior to January 1, 2003 for Nevada.</p>
6	Non-discriminatory Rollout of xDSL Services - Rural	<p>January 1, 2003 through October 12, 2003 for California.</p> <p>January 1, 2003 through December 31, 2003 for Oklahoma.</p> <p>Condition sunset prior to January 1, 2003 for Arkansas, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Ohio, Nevada, Texas and Wisconsin.</p>

<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
7	Carrier to Carrier Performance Plan	<p>January 1, 2003 through May 20, 2003 for Nevada.</p> <p>January 1, 2003 through October 20, 2003 for Michigan.</p> <p>January 1, 2003 through November 20, 2003 for Illinois, Indiana, Ohio and Wisconsin.</p> <p>January 1, 2003 through May 20, 2004 for Connecticut.</p> <p>Condition sunset prior to January 1, 2003 for Arkansas, California, Kansas, Missouri, Oklahoma and Texas.</p>
8	Uniform and Enhanced OSS	January 1, 2003 through December 31, 2003.
9	Restructuring OSS Charges	Condition sunset prior to January 1, 2003.
10	OSS Assistance to Qualifying CLECs	Condition sunset prior to January 1, 2003.
11	Collocation Compliance	Condition sunset prior to January 1, 2003.
12	Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements	Condition sunset prior to January 1, 2003.
13	Multi-State Interconnection and Resale Agreements	Condition sunset prior to January 1, 2003.
14	Carrier-to-Carrier Promotions: Unbundled Loop Discount	January 1, 2003 through December 31, 2003.
15	Carrier-to-Carrier Promotions: Resale Discount	January 1, 2003 through December 31, 2003.
16	Carrier-to-Carrier Promotions: UNE Platform	January 1, 2003 through December 31, 2003.
17	Offering of UNEs	January 1, 2003 through March 24, 2003.



<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
18	Alternative Dispute Resolution through Mediation	Condition sunset prior to January 1, 2003.
19	Shared Transport in Ameritech States	January 1, 2003 through December 31, 2003 <sup>1</sup> .
20	Access to Cabling in Multi-Unit Properties	Condition sunset prior to January 1, 2003.
21	Out-of-Territory Competitive Entry (National-Local Strategy)	Condition sunset prior to January 1, 2003.
22	InterLATA Services Pricing	January 1, 2003 through April 8, 2004.
23	Enhanced Lifeline Plans	<p>January 1, 2003 through January 6, 2003 for Ohio.</p> <p>January 1, 2003 through April 22, 2003 for Indiana.</p> <p>January 1, 2003 through August 26, 2003 for Michigan.</p> <p>January 1, 2003 through December 18, 2003 for Illinois.</p> <p>January 1, 2003 through December 31, 2003 for Arkansas and Texas.</p> <p>Condition sunset prior to January 1, 2003 for California, Connecticut, Kansas, Missouri, Nevada, Oklahoma and Wisconsin.</p>
24	Additional Service Quality Reporting	Condition sunset prior to January 1, 2003.
25	NRIC Participation	Condition sunset prior to January 1, 2003.

<sup>1</sup> The Evaluation Period of January 1, 2003 to December 31, 2003 was used in this engagement. SBC considers Condition 19 to have sunset on March 24, 2003.

<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
26	Compliance Program	January 1, 2003 through December 31, 2003.
	Section 3 of the Compliance Plan attached to the Consent Decree dated March 20, 2003	May 5, 2003 <sup>2</sup> through April 30, 2004.

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<sup>2</sup> At the direction of the FCC Staff, E&Y reported on the Company's compliance with Sections 1 and 2 of the Compliance Plan attached to the Consent Decree in conjunction with our attestation examination of the Company's compliance with the Merger Conditions for the year ended December 31, 2002. The current Evaluation Period encompasses the Company's implementation of the requirements of Section 3 of the Compliance Plan attached to the Consent Decree.

## Attachment B – SBC Condition 7 Exceptions to Compliance

Below is a listing of exceptions to compliance with the business rules for the Evaluation Period:

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>
1	SBC East <sup>1</sup> Ordering 1	Due to computer program coding errors, SBC East inappropriately reported the Firm Order Confirmation (“FOC”) measure for various disaggregations for January 2003 through January 2004.
2	SBC Midwest <sup>2</sup> Ordering 1	During 2003, certain orders were incorrectly tracked as line sharing orders.
3	SBC Midwest Preorder 1, 2a	During 2003, in the Company’s penalty payment calculations, the critical Z disallowance was applied only to the protocol translation time disaggregations. The critical Z disallowance should have been applied to all disaggregations.
4	SBC East Ordering 1 Provisioning 4, 6	Certain Competitive Local Exchange Carriers (“CLEC”) orders manually entered by the Local Service Center (“LSC”) into Work Flow Manager (“WFM”) contained errors.
5	SBC East Preorder 2	During January 2003, the Company did not report Verigate and Electronic Data Interchange (“EDI”)/CORBA loop qualifications designated as “designs.” These results should have been included in the “actual sent – design returned” disaggregation. This materially affected one datapoint for January 2003.
6	SBC Midwest Preorder 2a	As required by the implementation schedule of the version 3.0 business rules, SBC was to split the Loop Qualification preorder disaggregation into two disaggregations effective with February 2003 data. The change was not implemented until reporting of April 2003 data.
7	SBC East Ordering 3	Some transactions with a data designation of “@SNAPx” were improperly excluded due to a computer program coding error causing an underpayment of remedies for the EDI disaggregation for the months of June and October 2003, as well as for the Local Exchange Ordering (“LEX”) disaggregation for the month of November 2003.
8	SBC Midwest Ordering 3	Due to computer program coding errors, SBC Midwest was inappropriately reporting the flow through measure during the Evaluation Period.
9	SBC Midwest Provisioning 4a, 4d, 5a, 6a, 7a, 8	Certain records were not being included in the measure since a required Local Access Service Request (“LASR”) indicator was not appropriately populated.
10	SBC Midwest Provisioning 4a, 5a, 6a, 7a	The Company incorrectly reported certain internal orders as wholesale on split CLEC/ILEC accounts during January 2003.

<sup>1</sup> The term SBC East refers to the SNET state, Connecticut.

<sup>2</sup> The term SBC Midwest refers to the Ameritech states: Indiana; Illinois; Michigan; Ohio; and Wisconsin.

## Attachment B – SBC Condition 7 Exceptions to Compliance

<b><u>No.</u></b>	<b><u>PMs Affected</u></b>	<b><u>E&amp;Y Exception Description</u></b>
11	SBC Midwest Provisioning 4c	July 2003 data for datapoint 4c.1451 (% SBC/Midwest Caused Missed Due Dates - UNE - 8.0 dB Loop - Field Work - Without Test Access) was not reported for Ohio only.
12	SBC Midwest Provisioning 4c, 5c, 6c, 6c.1, 7c, 8 Maintenance 11c, 12c, 13c, 13c.1	During 2003, some UNE subloops were inappropriately categorized within the UNE performance measures.
13	SBC Midwest Provisioning 5a, 5c	During January through June 2003, for the UNE platform (“UNE-P”) residential disaggregations, some no fieldwork (“NFW”) numerator results were being reported in the fieldwork (“FW”) disaggregation.
14	SBC Midwest Provisioning 5a, 6a, 7a	Orders relating to private branch exchange (“PBX”) and voice-grade private line (“VGPL”) were reported in both POTS and Special disaggregations for January through June 2003 when they should have only been reported in the Specials disaggregations.
15	SBC Midwest Provisioning 5a(design), 5c	February 2003 data was restated in May 2003 due to the use of an incorrect data file caused by the failure to run a computer program module during original processing.
16	SBC Midwest Provisioning 5c	Results were restated for July 2003 for the SBC Midwest states due to a production problem where both retail and wholesale misses were inadvertently included in the wholesale results.
17	SBC East and SBC Midwest Provisioning 5c Maintenance 11c, 12c, 13c	The Company did not take the allowable exclusion for DSL loops greater than 12,000 feet with load coils, repeaters and/or excessive bridge tap for which the CLEC has not authorized conditioning and those load coils, repeaters and bridged taps are determined to be the cause of the trouble. For PM 5c, the Company did not implement the allowed exclusions for trouble reports caused by lack of digital test capabilities on 2-wire BRI and IDSL capable loops where acceptance testing is available and not selected by the CLEC nor for trouble reports for DSL stand alone loops caused by the lack of loop acceptance testing between CLEC and SBC due to CLEC reasons on the due date. For PM 5c in the SBC Midwest region, the Company did not implement the allowed exclusion for DS1 loop trouble reports where the CLEC chooses not to do cooperative testing or acceptance testing between CLEC and SBC due to CLEC reasons on the due date.
18	SBC Midwest Provisioning 5c Maintenance 11c, 13c, 13c.1	Identification of installation and repeat reports for the line sharing disaggregations were inaccurate for the months of January through May 2003.

## Attachment B – SBC Condition 7 Exceptions to Compliance

<b><u>No.</u></b>	<b><u>PMs Affected</u></b>	<b><u>E&amp;Y Exception Description</u></b>
19	SBC Nevada Provisioning 6c	For March 2003 data, the numerator for the UNE Statewide/UNE Loop with LNP disaggregation was misstated due to a manual error, which caused the result to be a percentage greater than 100%. There were only two orders for this datapoint and the correct actual results calculated as a Pass (100%) because both orders met standard interval.
20	SBC East and SBC Midwest Provisioning 7, 8	The Company did not take an allowed exclusion of incremental delay days attributable to the CLEC after the initial SBC caused delay. Taking this exclusion is technically infeasible for the Company due to system limitations.
21	SBC Midwest Provisioning 7c	For orders where the customer or CLEC does not have a clear due date, the Due Date Objective Date was set to a year of '59 to represent the year 2059. Since some of the legacy systems only retain 2-digit years, the Due Date Objective was saved as 1959, causing the transactions to incorrectly appear as late. This materially affected February 2003 for Illinois and Ohio only.
22	SBC Midwest Provisioning 8	The Company did not take the allowed exclusions related to expedites (less than 3 days) due to system limitations for January 2003.
23	SBC East Maintenance 11c	September through November 2003 data for datapoint 23.2300132 (#11c-- Percent Repeat Reports Within 30 Days - UNE - Maintenance (Wholesale) - % Repeat Report - UNE - DSL No Line Sharing) was reported late (with the January 20, 2004 submission) due to a table loading error.
24	SBC East Maintenance 12a	For January 2003, SBC East was not excluding trouble tickets related to customer provided equipment and wiring.
25	SBC Midwest Maintenance 12a	As required by the changes to the version 3.0 business rules, SBC was to implement a further disaggregation of UNE-P between residence and business. The additional UNE-P disaggregations were omitted in the implementation schedule for version 3.0 business rules. Other changes to PM12a were scheduled to be implemented with March 2003 data and were on time. The Company did not implement the additional disaggregations until reporting the June 2003 data.
26	SBC Midwest Maintenance 13a, 13a.1	SBC was inappropriately excluding wholesale trouble reports for January through April 2003 for the POTS residence and business disaggregations in Illinois, Ohio, and Michigan for PM 13a and for the POTS residence disaggregation in Illinois and Ohio for PM 13a.1.
27	SBC Midwest Maintenance 13a, 13a.1, 13c.1	For a number of specials sub-metrics in all 5 states, there was a load error in the inventory file leading to a doubling of the CLEC denominator for PMs 13a and 13a.1 August results, as well as a material change in the ILEC data for PM 13c.1 August results.
28	SBC East Trunking 15	SBC East did not include data from January 10, 2004 through January 14, 2004 in the January 2004 reported data due to a data link issue.
29	SBC Midwest Billing 18	The Company did not report disaggregated results for electronic data interchange ("EDI") and billing data tape as required by the business rules for January 2003.

**Attachment B – SBC Condition 7 Exceptions to Compliance**

<b><u>No.</u></b>	<b><u>PMs Affected</u></b>	<b><u>E&amp;Y Exception Description</u></b>
30	SBC East Availability 19	August 2003 data for the EDI/CORBA disaggregation was misstated due to a manual error.

**SBC/Ameritech Merger Conditions  
2003 Compliance Audit and Agreed-Upon Procedures Reports  
Report Date August 27, 2004**

**Tab 2**



**Priscilla Hill-Ardoin**  
Senior Vice President  
Regulatory Compliance

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## **Report of Management on Compliance With the Merger Conditions**

Management of SBC Communications Inc. (SBC or the Company) is responsible for complying with the conditions set forth in the Merger Conditions<sup>1</sup> for the Evaluation Period<sup>2</sup>. At the direction of the FCC, management's assertions that follow do not relate to compliance over Conditions 1, "Separate Affiliate for Advanced Services". Management is also responsible for establishing and maintaining effective internal control over compliance with the Merger Conditions.

Management has performed evaluations of SBC's compliance with the requirements of the Merger Conditions for the Evaluation Period. Based on these evaluations, we assert that during the Evaluation Period, SBC complied with all requirements of the Merger Conditions except as specifically noted in assertions 7, 14 and 15, and 26.

### **Promoting equitable and efficient Advanced Services deployment**

#### *1. Separate Affiliate For Advanced Services*

As provided in paragraph 67 of the Merger Conditions, compliance with this condition is addressed in a separate agreed-upon procedures engagement performed by Ernst & Young.

#### *2. Discounted Surrogate Line Sharing Charges*

This condition sunset when line sharing was implemented on May 29, 2000.

#### *3. Advanced Services Operations Support Systems (OSS)*

The Company complied with the requirements of this Condition in the following manner:

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<sup>1</sup> Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's (FCC's) Order Approving the SBC/Ameritech Merger. *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999) (SBC/Ameritech Order). Merger Conditions also include the "Compliance Plan of SBC Communications Inc." attached to the "Consent Decree" set forth in the Order and Consent Decree released on March 20, 2003 by the FCC in File No. EB-02-IH-0382 (hereafter Consent Decree).

<sup>2</sup> The Evaluation Period is described in Attachment B.



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SBC continued to make available the enhanced Datagate or EDI interfaces for pre-ordering and ordering xDSL and other Advanced Services implemented by SBC according to the Future Mode of Operation Timeline – Release Schedule in the Plan of Record filed April 3, 2000, and Phase 2 of the collaborative sessions which ended on December 22, 2000. SBC completed the enhancements to Advanced Services OSS on October 22, 2001, except in Connecticut, where the enhancements were completed on August 6, 2002. SBC remains obligated to make the OSS enhancements and additional interfaces required by this Condition available for not less than 36 months after they were deployed.

**4. *Access to Loop Information for Advanced Services***

The Company complied with the requirements of this Condition in the following manner:

- a. SBC provided CLECs with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that was available to SBC's retail operations, including the retail operations of the Advanced Services affiliates.
- b. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order OSS access to the theoretical loop length on an individual address basis.
- c. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge.
- d. SBC provided unaffiliated telecommunications carriers with non-discriminatory access to loop make-up information regarding the capability of loops to support Advanced Services that is available in SBC's records, in response to address-specific written requests. Pricing for this manual process was in compliance with any applicable Commission pricing rules for Unbundled Network Elements ("UNEs").

The last requirement of this condition sunset on October 8, 2003, 36 months after SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge.

**5. *Loop Conditioning Charges and Cost Studies***

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

**6. *Non-discriminatory Rollout of xDSL Services***

The Company complied with the requirements of this Condition in the following manner:

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- a. For 36 months after SBC had deployed xDSL in at least 20 urban and/or 20 rural wire centers in a particular state prior to the October 8, 2002 sunset date of the condition, at least 10 percent of the wire centers in which xDSL had been deployed were wire centers identified from the urban or rural Low-Income Pools.
- b. SBC filed the required quarterly reports with the FCC describing the status of the xDSL roll-out.

**Ensuring Open Local Markets**

*7. Carrier-to-Carrier Performance Plan (Including Performance Measurements)*

The Company complied with the requirements of this Condition in the following manner in 2003 and in 2004 for SBC SNET through the monthly voluntary payment made in May 2004, at which time the condition sunset in its entirety.

- a. SBC reported, on a monthly basis and in each of its states where this condition has not sunset, according to the schedule established in Appendix A to the Merger Conditions, its performance in 20 measurement categories (with sub-measurements) that address functions that may have a particularly direct effect on CLECs and their customers. SBC provided the FCC staff with the required performance measurement data for each month during the year 2003, or until the relevant sunset date(s) for the SBC West, SBC Midwest, and SBC SNET regions and in 2004 through the sunset date for SBC SNET. These files were transmitted by the 20<sup>th</sup> of each month or the first business day after the 20<sup>th</sup> when the due date was on a weekend or federal holiday. In addition, these performance measurement results were also posted to the SBC Internet web site coincident with the monthly transmittals to the FCC staff. While substantially correct, as explained in attachment A, occasionally certain data filed during the Report Period were either restated or corrected prospectively.
- b. SBC is required to provide the FCC staff<sup>3</sup> with notice of any changes to the design or calculation of these measurements adopted by the Texas or California State commissions. SBC notified the FCC on July 23, 2003 that the California Public Utility Commission had issued an order dated July 10, 2003 approving changes to the SBC performance measurements. During 2003, the Texas Public Utility Commission did not order changes to the business rules.
- c. On June 11, 2002, the FCC released a letter stating that SBC was not required to utilize the 60-minute benchmark for performance measure PM 1, Firm Order Confirmations, in calculating any voluntary payments in the Ameritech states for the remainder of 2002. Instead, SBC was directed to measure its performance using the 120-minute benchmark and calculate payments accordingly. On January 17, 2003, the FCC issued another letter granting SBC's request to continue using the 120-minute benchmark until July 1, 2003. A request for an extension of the waiver was denied and accordingly, SBC implemented the 45

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<sup>3</sup> Chief of the Common Carrier as changed to Chief of the Wireline Competition Bureau in March 2002 pursuant to FCC 02-76.

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- minute standard adopted with the version 3.0 changes to the Texas business rules in the Midwest region.
- d. On July 14, 2003 the FCC released a letter approving SBC's request to substitute the Midwest 271 collocation performance measure, PM 107 for the Texas version 3.0 measure, PM 17 in the five Midwest states.
  - e. On August 6, 2003, the FCC released a letter approving SBC's request to postpone the scheduled implementation dates for some of the disaggregations under measures 5a, percent installation reports, and 12c, mean time to restore required by the version 3.0 Texas Business Rules. For the SBC Midwest states, the requirement to implement these disaggregations was postponed from June 2003 to September 2003.
  - f. On November 14, 2003, the FCC released a letter approving SBC's request to modify the implementation schedule for certain disaggregations for line splitting performance measures of the version 3.0 Texas Business Rules for the SBC Midwest and SBC SNET regions. In particular, FCC Staff waived the requirement that SBC Midwest implement line splitting maintenance measures in September 2003 noting that the Merger Conditions no longer required performance measure reporting for SBC Midwest after the September 2003 data submission. With respect to SBC SNET, the FCC approved SBC's request for a three-month extension of the implementation schedule for line splitting maintenance measures.
  - g. The Plan remained effective for the SBC service area within each state, except for Connecticut, until the earlier of (i) 36 months after the date that SBC was first potentially obligated to make Plan payments for that state, or (ii) the first date on which SBC was first authorized to provide in-region, interLATA services in that state: These authorizations were as follows:
    - 1. The FCC approved 271 applications for Texas in 2000, Arkansas, Missouri, Kansas, Oklahoma in 2001, and California in 2002. Accordingly, no reports of performance measures were due for these states during 2003.
    - 2. The FCC approved the Nevada 271 application on April 14, 2003 (FCC 03-80) and issued a public notice on May 12, 2003 (DA 03-1561) extinguishing the obligation to report performance measures for the state of Nevada. Accordingly, SBC provided the final report of Nevada performance measures for March 2003 activity on April 21, 2003 for all measures.
    - 3. The FCC approved the Michigan 271 application on September 17, 2003 (FCC 03-228) and approved the multi-state Illinois, Indiana, Ohio and Wisconsin 271 application on October 15, 2003 (FCC 03-243) The FCC issued a public notice on October 21, 2003 (DA 03-3321) extinguishing the obligation to report performance measures for the state of Michigan effective August 2003 and for Illinois, Indiana, Ohio and Wisconsin effective September 2003. Accordingly, SBC provided the final report of Michigan performance measures for August 2003 activity on September 22, 2003 for all measures and SBC provided the final report of Illinois, Indiana, Ohio and Wisconsin performance measures for September 2003 activity on October 21, 2003.

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4. SBC SNET was first potentially obligated to make Plan payments for the April 2001 performance measure report. Accordingly, SBC provided the final report of Connecticut performance results for March 2004 activity on April 20, 2004.
- h. The Carrier-to-Carrier Performance Plan attached the obligation for SBC to make voluntary payments to the U.S. Treasury in all SBC states where 271 approval has not been obtained. Each payment required during the 2003 and 2004 Report Periods were made to the Commission within 30 days of when the performance results became available or on the first business day after 30 days when the due date was on a weekend or federal holiday. These voluntary payments were not included in the revenue requirements of any SBC ILEC. The Company provided notice to the Commission within five business days of each payment; however, a notice to the Secretary for a voluntary payment made on April 21, 2003 was filed late on May 1 due to an administrative oversight.
- i. Pursuant to the requirement that SBC and the Chief of the Wireline Competition Bureau<sup>4</sup> shall jointly review the 20 measurements on a semi-annual basis, the FCC staff and SBC met on June 5, 2003 and December 4, 2003 to review the performance measurements.

**8. *Uniform and Enhanced OSS***

The Company complied with the requirements of this Condition in the following manner:

- a. SBC continued to make available the OSS enhancements and interfaces deployed in 2002 pursuant to Uniform and Enhanced Plan of Record ("POR") as directed by the FCC on September 22, 2000.
- b. The Commission extended the target date for completion of Phase 1 of the Uniform Business Rules Plan of Record to March 15, 2001 in DA 01-454, released February 20, 2001 and then to April 30, 2001 in DA 01-594, released March 7, 2001. The Phase 2 collaborative sessions for the Uniform Business Rules Plan of Record began on April 30, 2001. The FCC, in DA 01-1915 adopted August 10, 2001 and released August 13, 2001, granted an extension of time for additional collaborative sessions and directed that Phase 2 would end on October 19, 2001. The FCC, in DA 01-2450 adopted October 18, 2001 and released October 19, 2001, granted a limited extension of time to conclude collaborative sessions on November 19, 2001. Based on this extension, Phase II ended on November 19, 2001. On April 10, 2003, the Company notified the Commission that it had completed Phase III of the Uniform Business Rules Plan of Record within the 18-month deadline following the conclusion of Phase II.
- c. SBC continued to follow the 13-state Change Management Process (CMP) that was filed with the Commission on December 8, 2000. Several companies filed a response to that filing, and SBC subsequently negotiated with those companies

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<sup>4</sup> Id.

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and obtained their agreement. SBC filed the 13-state CMP with the commission of each of the 13-states on March 13, 2001.

This condition sunset in 2003, except with respect to the obligation to provide access to the OSS enhancements and additional interfaces required by Paragraphs 26, 27, 29, and 30 of this Condition for not less than 36 months after they were deployed.

*9. Restructuring OSS Charges*

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

*10. OSS Assistance to Qualifying CLECs*

This condition sunset on or about November 7, 2002, 36 months after the date the above-referenced OSS expert teams were designated and first made available.

*11. Collocation Compliance*

This condition sunset as a Merger requirement on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

*12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements*

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

*13. Multi-State Interconnection and Resale Agreement*

This condition sunset on or about December 7, 2002, 36 months after SBC first made available to any requesting telecommunications carrier generic interconnection and resale terms and conditions covering the SBC/Ameritech Service Area in all SBC/Ameritech States.

*14. Carrier-to-Carrier Promotions: Unbundled Loop Discount*

The Company complied with the requirements of this Condition in the following manner:

- a. The Company offered the unbundled loop discount as required by this Condition during the Report Period. The requirement to offer the discount on new orders sunset in Arkansas, California, Connecticut, Kansas, Missouri, Oklahoma, and Texas prior to 2003. During 2003, the FCC approved the Nevada 271 application on April 14, 2003, (FCC 03-80), the Michigan 271 application on September 17, 2003, (FCC-03-228), and the multi-state Illinois, Indiana, Ohio and Wisconsin 271 application on October 15, 2003 (FCC 03-243). Accordingly, the

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- requirement to offer the discount sunset on the respective dates SBC was authorized to provide InterLATA services in these states.
- b. The Company continued to provide the unbundled loop discount for eligible loops ordered while the offering window was open. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional discount.
  - c. The Company became aware that a system error occurring in April 2002 caused orders for residential loops to be improperly entered as business loops in the SBC Midwest region. As such, CLECs did not receive the discount for eligible residential loops ordered subsequent to the error. The Company resolved the error as of November 9, 2002, and subsequently identified the affected loops for the impacted CLECs and applied correcting credits in June 2003. In addition, in August 2002, the Class of Service code on orders submitted by one CLEC in Michigan with a valid merger amendment was changed from tariff to contract. Orders submitted subsequent to the change would appear to be eligible for the merger discount. However, in 2001, this CLEC had requested a change in the class of service on its embedded base of loops from contract to tariff, and the CLEC elected to have its future orders receive a tariff class of service. The Company does not have any indication that this CLEC subsequently revoked its election to obtain the tariffed class of service and rates.
  - d. The reporting threshold towards the maximum number of unbundled local loops that SBC was required to provide at the promotional discounted price was met for the 50% threshold in Wisconsin in September 2002. However, due to an administrative oversight, the required written or Internet notice was not issued until February 2003. The Company reached the 80% threshold in Wisconsin in June 2003 and issued the required notice timely. The Company subsequently reached the 100% threshold in Wisconsin while its 271 application was pending; however, the Company continued to accept orders until the offer window sunset with approval of the 271 application. Otherwise, the reporting thresholds were not met in any state during 2003.

*15. Carrier-to-Carrier Promotions: Resale Discount*

The Company complied with the requirements of this Condition in the following manner:

- a. The Company continued to provide the promotional resale discount for 36 months after the initial service date as required by this Condition for lines ordered prior to the sunset of the offer. However, as described in the Report of Management included in E&Y's September 2, 2003 Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions, a small number of lines in the SBC Southwest region did not receive the discount. The Company has been unable to identify the exact cause for these isolated cases where the discount was not provided or identify the impacted orders as the system programming to provide the discount on new orders was overwritten when the offering window closed in October 2002. However, the Company has determined

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that the vast majority of orders were processed correctly and that the overall number of lines potentially eligible for the promotional discount were low; as such, the number of lines that may not have received the promotional discount were minimal and the total dollar value difference between the promotional discounts and standard resale discounts was nominal. In 2004, the Company discovered that one CLEC in California did not receive the discount on eligible lines due to an administrative misunderstanding regarding its Interconnection Agreement amendment. However, this CLEC converted the majority of its resale lines to UNE-P and the number of lines not receiving the resale discount was low. The Company also discovered limited instances where individual orders did not receive the discount due to service rep or system errors. As with Southwest, the Company has been unable to identify the exact cause for these isolated cases where the discount was not provided or identify the impacted orders as the system programming to provide the discount on new orders was overwritten when the offering window closed in October 2002. However, the Company has determined that the vast majority of orders were processed correctly and that the overall number of lines potentially eligible for the promotional discount were low; as such, the number of lines that may not have received the promotional discount were minimal and the total dollar value difference between the promotional discounts and standard resale discounts was nominal.

*16. Carrier-to-Carrier Promotions: UNE Platform*

The Company complied with the requirements of this Condition in the following manner:

This condition sunset on November 7, 2002, 36 months after commencement of the Offering Window for the promotion. However, the Company remains obligated to provide the promotional UNE platform for 36 months from the date a promotional UNE platform is installed and operational, or the period during which the promotional UNE platform remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

*17. Offering of UNEs*

The Company complied with the requirements of this Condition in the following manner:

The Company complied with this Condition by continuing to make available, until this condition sunset on March 24, 2003 (the date of a final, non-appealable court decision on the UNE-Remand order), all UNEs or combinations of UNEs offered as of January 24, 1999, under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

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*18. Alternative Dispute Resolution through Mediation*

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

*19. Shared Transport in Ameritech States*

The Company complied with the requirements of this Condition in the following manner:

- During the 12 months ended December 31, 2003, SBC offered availability of shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.

The Company considers the sunset date of Condition 19 to be March 24, 2003; the date of a final, non-appealable court decision in the UNE-Remand order.

*20. Access to Cabling in Multi-Unit Properties*

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

**Fostering Out-of-Territory Competitive Entry**

*21. Out-of-Territory Competitive Entry (National-Local Strategy)*

This condition sunset on or before August 21, 2002, by which date SBC had met all of the market entry requirements set forth in para. 59(c) of the Merger Conditions for each of the 30 markets, on or before the deadlines set forth therein.

**Improving Residential Phone Service**

*22. InterLATA Services Pricing*

The Company complied with the requirements of this Condition in the following manner:

SBC did not impose any minimum mandatory monthly or flat-rate charges to any residential wireline customers in any in-region state where it had authority to offer interLATA services during 2003 and in 2004 through the April 8, 2004 sunset date of the Condition, nor to any out-of-region residential wireline customers in 2003 or through the April 8, 2004 sunset date of the Condition. During the year ended December 31, 2003 and in 2004 through the April 8, 2004 sunset date of the Condition, the Company offered customers optional, voluntary interLATA services pricing plans that included minimum monthly or flat-rate charges.



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*23. Enhanced Lifeline Plans*

The Company complied with the requirements of this Condition in the following manner:

- a. The Company continued to provide the Enhanced Lifeline plan in all the states that accepted the offer with discounts of up to \$10.20 per month as required by the agreement.
- b. SBC maintained toll-free access numbers for voice or fax communication with current and potential customers, and modified voice response units at its service centers to incorporate Enhanced Lifeline information for calls in which customers express an interest in obtaining new service, where the Enhanced Lifeline plan has been implemented.
- c. The Company provided on-line verification of eligibility in those states in which terms were negotiated to permit the Company to access information necessary to verify a customer's participation in an eligible program.
- d. SBC maintained promotional budgets, as required by the merger agreement, to make potential customers aware of the Enhanced Lifeline plan or other programs that benefit low-income consumers, and expenditures met required minimum annual promotional budget levels as required.
- e. In those states where the plan has been implemented, appropriate methods and procedures were maintained to implement operational provisions of the Enhanced Lifeline plan regarding payment arrangements for past due bills and no deposits are required for local service.

*24. Additional Service Quality Reporting*

This condition sunset for each state after reports have been filed for a period of 36 months following the date of SBC/Ameritech's first report for that state. Accordingly, this condition sunset in each state on or before November 20, 2002, which was the date SBC filed its report for third quarter (July-September) 2002.

*25. NRIC Participation*

This condition sunset on October 8, 2002, 36 months after the Merger Closing Date (October 8, 1999).

**Ensuring Compliance with and Enforcement of These Conditions**

*26. Compliance Program*

The following addresses SBC's compliance with the requirements of this condition:

- a. A senior corporate officer served as Compliance Officer throughout 2003.
- b. On March 15, 2004, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its

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compliance with the Merger Conditions for Report Year 2003. However, the report omitted references to certain UNE and resale discounts that were discovered later in 2004 as discussed in paragraphs 14.c and 15.a. On October 21, 2003, the Company filed with the FCC a supplement to the annual compliance report, which included information on items relevant to the 2002 Report Year which were not identified in the annual compliance report filed March 14, 2003 because they were discovered after that date.

**27. Independent Auditor**

The following addresses SBC's compliance with the requirements of this condition:

- a. SBC engaged E&Y to review its compliance with the Merger Conditions for 2003.
- b. SBC also engaged E&Y to perform an agreed-upon procedures engagement for the engagement period from January 1, 2003 through the October 8, 2003 sunset date of the condition regarding the separate Advanced Services affiliate requirements contained in Condition 1 of the Merger Conditions.
- c. SBC granted the independent auditor access to all books, records, operations, and personnel for the audits.
- d. On September 2, 2003, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions (excluding Condition 1) regarding the Company's compliance during the year ended December 31, 2002.
- e. On September 2, 2003, SBC filed with the FCC the Auditor's Report of Independent Accountants on Applying Agreed-Upon Procedures for 2002 in accordance with the separate Advanced Services affiliate requirements in Condition 1 of the Merger Conditions.

**28. Enforcement**

The following addresses SBC's compliance with the requirements of this condition:

- a. As indicated in the response for Condition 7, SBC made voluntary payments to the U.S. Treasury during 2003 related to Carrier-to-Carrier performance measurement requirements.
- b. The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company, in violation of the Merger Order, did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999. The Company filed a response with the Commission on March 5, 2002 contesting the FCC's allegations. On October 9, 2002, the FCC in Forfeiture Order, File No. EB-01-IH-0030, upheld the NAL. On November 8, 2002 the Company filed a Petition for Reconsideration with the FCC. The Company subsequently withdrew the Petition for Reconsideration and paid the amount assessed by the Forfeiture Order; however, the Company filed a

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Petition for Review of the Forfeiture Order in the U.S. Court of Appeals for the D.C. Circuit, SBC Communications Inc. v. FCC, No. 03-1118 (D.C. Cir. filed Apr. 28, 2003). On July 6, 2004, the U.S. Court of Appeals denied the Company's Petition for Review.

- c. On March 20, 2003, the Company and the FCC entered into a Consent Decree (DA 03-825) regarding the accuracy of performance measure data reported to the FCC pursuant to Merger Condition 7. In the Consent Decree, SBC agreed to make a voluntary contribution of \$250,000 to the United States Treasury, which SBC paid within the required 30 days of the effective date of the order adopting the Consent Decree. In the Consent Decree, SBC committed to a Compliance Plan containing the following remedial actions:

1. Implementation of a Control Process
2. Enhanced Regulatory Compliance Group Oversight
3. Development and Application of a True-Up Process
4. Submission of Reports to the Enforcement Bureau
5. Inclusion of the Consent Decree in the Merger Compliance audit

*29. Sunset*

Certain Merger Conditions sunset during 2003. Conditions with an evaluation period shorter than January 1, 2003 through December 31, 2003 sunset at the later date of the evaluation period documented in Attachment B to this report.

*30. Effect of Conditions*

This Condition does not impose affirmative obligations on SBC. Rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

***Additional Information – March 20, 2003 Consent Decree***

On March 20, 2003, the Company entered into a Consent Decree with the Enforcement Bureau regarding errors in certain of the data filed pursuant to Merger Condition 7. Paragraph 13 of the Consent Decree required SBC to make a voluntary contribution of \$250,000 to the U.S. Treasury within 30 days of the effective date of the order adopting the consent decree. Section 1 of the Compliance Plan attached to the Consent Decree required the Company to have implemented enhancements to the controls and processes for managing the data reported monthly pursuant to Condition 7 within 45 days of the effective date of the Consent Decree. Section 2 of the Compliance Plan required the Company to establish a steering committee of senior management personnel within 45 days of the effective date of the Consent Decree. Compliance with the terms of the Consent Decree and Sections 1 and 2 of the Compliance Plan was discussed in SBC's Report of Management of Compliance with the Merger Conditions for the year ended December 31, 2002. Section 3 of the Consent Decree required the Company to establish

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a true-up process no later than 90 days after the effective date of the Consent Decree and apply that true-up to payments no later than 180 days after the effective date. The company made the first of two true up payments on September 15, 2003. The first payment was for the twelve month period immediately preceding the date of the consent decree, i.e. for the reports filed March 2002 through February 2003. A second true up was performed on April 20, 2004 for the balance of 2003 in order to comply with the requirements of Section 3. A final true up to voluntary payments will be made in September 2004 to complete the requirements of the Consent Decree.

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Date: 8/27/04

SBC Communications Inc.

By: 

Priscilla Hill-Ardoin

Senior Vice President – Regulatory Compliance

FCC Corporate Compliance Officer

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

Below is a listing of exceptions to compliance with the business rules for the Evaluation Period:

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
1	SBC East <sup>1</sup> Ordering 1	Due to computer program coding errors, SBC East inappropriately reported the Firm Order Confirmations (“FOC”) measure for various disaggregations for January 2003 through January 2004.	SBC East performed a materiality review on the results after the program coding corrections were made. Based on that assessment, the Company determined that results for only one data point, Percent Firm Order Confirmations received within “X” hours – UNE loops excluding DSL and requiring manual intervention, moved from passing to below the benchmark for certain months. For the affected months, however, there was no chronic miss and therefore no payment impact. Because there was no effect on parity determination or payment liability, results were not restated.
2	SBC Midwest <sup>2</sup> Ordering 1	During 2003, certain orders were incorrectly tracked as line sharing orders.	Orders for line share are identified using a combination of different fields including class of service, USOC and circuit ID. In September 2003, the Company identified additional criteria that needed be evaluated in order to properly identify line share orders. Since September 2003 was the final reporting month for the remaining Midwest states, this change was implemented prospectively for state 271 performance measures. The Company’s materiality assessment, based on a June 2003 test month, showed that less than 0.5% of all orders identified as line share were misclassified.

<sup>1</sup> The term SBC East refers to the SNET state, Connecticut.

<sup>2</sup> The term SBC Midwest refers to the Ameritech states: Illinois, Indiana, Michigan, Ohio and Wisconsin.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
3	SBC Midwest Preorder 1, 2a	During 2003, in the Company's penalty payment calculations, the critical Z disallowance was applied only to the protocol translation time disaggregations. The critical Z disallowance should have been applied to all disaggregations.	When the version 3.0 rules were implemented in the Midwest, one of the required changes was to add a submeasure for protocol translation times. This measure was designated as not being subject to damages in the benchmark section of the business rule. The second sentence of the same section also stated that "the critical Z does not apply." When the business requirements were developed, the disallowance was interpreted as an additional condition on the protocol translation pre-order query reporting. During a review of the code for reporting required for 271 purposes in July 2004, SBC detected the error whereby, per agreements made at the Southwest collaboratives, the disallowance was intended to apply to all disaggregations of the pre-order query measure. Upon further validation, SBC determined that this error also occurred for disaggregations of PM 1. SBC will include any additional payments required for these measures in the final voluntary payment true up.
4	SBC East Ordering 1 Provisioning 4, 6	Certain Competitive Local Exchange Carriers ("CLEC") orders manually entered by the Local Service Center ("LSC") into Work Flow Manager ("WFM") contained errors.	These were a limited number of manual data entry errors made by the service reps typing the order. Since there was a low volume of errors, SBC East did not restate results. To prevent future occurrences, the Company has been reinforcing its training to service reps regarding the need for accuracy in order to process local service requests and service orders. Emphasis has been placed on this training as the reps are also reminded that correct data placed on service orders is necessary to ensure validity of the performance measures.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
5	SBC East Preorder 2	During January 2003, the Company did not report Verigate and Electronic Data Interchange (“EDI”)/CORBA loop qualifications designated as “designs”. These results should have been included in the “actual sent – design returned” disaggregation. This materially affected one datapoint for January 2003.	Effective with February 2003 results, the Company implemented revised computer program logic to include these transactions. SBC East evaluated materiality and of the resulting differences, only one change on one data point was material. The result for January, 2003 was not restated because this was a diagnostic measure, published for informational purposes only, and as there was no pass/fail determination, there were no impacts to remedy payments.
6	SBC Midwest Preorder 2a	As required by the implementation schedule of the version 3.0 business rules, SBC was to split the Loop Qualification preorder disaggregation into two disaggregations effective with February 2003 data. The change was not implemented until reporting of April 2003 data.	SBC’s proposed implementation of the two disaggregations was based on the Company’s understanding that the functionality was currently available and that this was a simple change. Upon further investigation, it was determined that computer programming would be necessary to create the capability to separately report the two data points. Since this completed with April reporting, it was not included in SBC’s July 25, 2003 request for an extension on implementation of measures requiring similar additional unanticipated programming (see DA 03-2609). Since the technical capability did not exist prior to April 2003 results, no restatement was possible.



## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
7	SBC East Ordering 3	Some transactions with a data designation of “@SNAPx” were improperly excluded due to a computer program coding error causing an underpayment of remedies for the EDI disaggregation for the months of June and October 2003, as well as for the Local Exchange Ordering (“LEX”) disaggregation for the month of November 2003.	A small number of retail transactions that were flow through eligible and distributed to the order system were inadvertently excluded from PM 3 results. The impact of this exclusion was insignificant (less than .05% in every month). There was, however, an impact on the remedy computations. When the transactions were included in the results, the number of payable occurrences increased by a single transaction for the months of June, October and November 2003. SBC will include any additional payments required for these transactions in the final voluntary payment true up.
8	SBC Midwest Ordering 3	Due to computer program coding errors, SBC Midwest was inappropriately reporting the flow through measure during the Evaluation Period.	There were a number of computer program coding errors which individually did not have a material impact on results. In combination, however, there were 3 instances where the results moved from a make to a miss. In Illinois for March 2003 and Indiana and Michigan for April 2003 the results for one disaggregation were out of parity after correcting the program coding. The misses for Illinois or Michigan did not result in any additional payment liability because those payments were already at the cap. An additional payment for Indiana will be made as part of the final voluntary payment true up. Credits will also be applied to the final voluntary payment true up for several instances where results moved from out of parity to a pass after reprocessing.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
9	SBC Midwest Provisioning 4a, 4d, 5a, 6a, 7a	Certain records were not being included in the measure since a required Local Access Service Request (“LASR”) indicator was not appropriately populated.	SBC’s original materiality assessment showed that this issue was limited to 18 UNE-P orders that were present in the feed from LASR but not marked as LASR processed in the reporting system. Although the relevant e-mails discussing the analysis were made available, the original data extract was not maintained and therefore not reviewed by the independent auditor. Due to the extremely small number of affected transactions identified in that analysis, the Company determined that these exclusions were immaterial to the overall results and did not restate.
10	SBC Midwest Provisioning 4a, 5a, 6a, 7a	The Company incorrectly reported certain internal orders as wholesale on split CLEC/ILEC accounts during January 2003.	Effective with February 2003 results, the Company implemented new computer program code to exclude certain internal orders correcting the CLEC account on a partial reverse migration. The Company did not restate January 2003 results since removing the extremely small volume of orders would not have a material impact on the wholesale results.
11	SBC Midwest Provisioning 4c	July 2003 data for datapoint 4c.1451 (% SBC/Midwest Caused Missed Due Dates - UNE - 8.0 dB Loop - Field Work - Without Test Access) was not reported for Ohio only.	The Company determined that results for this data point were inadvertently omitted from the data file provided to the FCC Staff due to an error in a data load. Results for the month’s fielded activity on this one submeasure were included the corresponding no field work measure. Restating would have required reprocessing the source data. Results were not restated because the Company has never missed this measure, making it very unlikely the July result would have been out of parity with retail results. Further, because prior and successive months were in parity, there was no possibility of a chronic miss and no payment liability.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
12	SBC Midwest Provisioning 4c, 5c, 6c, 6c.1, 7c, 8 Maintenance 11c, 12c, 13c, 13c.1	During 2003, some UNE subloops were inappropriately categorized within the UNE performance measures.	The Company completed the computer program coding required to identify UNE subloops in 2004. Since the technical capability to assign subloop markers in the data base did not exist before those changes took effect, materiality could not be assessed and no restatement was possible.
13	SBC Midwest Provisioning 5a, 5c	During January through June 2003, for the UNE platform (“UNE-P”) residential disaggregations, some no fieldwork (“NFW”) numerator results were being reported in the fieldwork (“FW”) disaggregation.	The Company completed the computer program coding to properly categorize UNE-P results with July 2003 performance. While it was not possible to reprocess prior transactions to restate results, using a worst case scenario and recalculating results for a test month showed that results would have continued to remain in parity.
14	SBC Midwest Provisioning 5a, 6a, 7a	Orders relating to private branch exchange (“PBX”) and voice-grade private line (“VGPL”) were reported in both POTS and Special disaggregations for January through June 2003 when they should have only been reported in the Specials disaggregations.	The systems capability to properly report PBX and VGPL in either POTS or specials was implemented beginning with July 2003 results. Prior to that change, both retail and wholesale POTS results were overstated for PBX and VGPL. Because the technical capability to correctly identify PBX and VGPL in either the POTS or specials PMs did not exist prior to July 2003 reporting, the Company had no means of assessing materiality and no restatement was possible.
15	SBC Midwest Provisioning 5a(design), 5c	February 2003 data was restated in May 2003 due to the use of an incorrect data file caused by the failure to run a computer program module during original processing.	This restatement to February 2003 results was made to include information that was inadvertently omitted when a programming module did not run appropriately during a processing cycle.
16	SBC Midwest Provisioning 5c	Results were restated for July 2003 for the SBC Midwest states due to a production problem where both retail and wholesale misses were inadvertently included in the wholesale results.	Results for July 2003 were restated in September 2003 to correct one disaggregation for line sharing. Due to a production problem, the wholesale result included both wholesale and retail misses. The corrected results remained in parity so there was no impact on payments.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
17	SBC East and SBC Midwest Provisioning 5c Maintenance 11c, 12c, 13c	<p>The Company did not take the allowable exclusion for DSL loops greater than 12,000 feet with load coils, repeaters and/or excessive bridge tap for which the CLEC has not authorized conditioning and those load coils, repeaters and bridged taps are determined to be the cause of the trouble. For PM 5c, the Company did not implement the allowed exclusions for trouble reports caused by lack of digital test capabilities on 2-wire BRI and IDSL capable loops where acceptance testing is available and not selected by the CLEC nor for trouble reports for DSL stand alone loops caused by the lack of loop acceptance testing between CLEC and SBC due to CLEC reasons on the due date. For PM 5c in the SBC Midwest region, the Company did not implement the allowed exclusion for DS1 loop trouble reports where the CLEC chooses not to do cooperative testing or acceptance testing between CLEC and SBC due to CLEC reasons on the due date.</p>	<p>Effective with February 2003 results, the Company implemented computer program coding changes in the Midwest to prospectively exclude trouble reports taken as a result of the CLEC choosing not to perform acceptance testing for 2 wire BRI, IDSL capable loops and DSL stand alone loops. Because the Company did not have the technical capability in the Midwest to identify trouble reports on DS1 loops resulting from the customer choosing not to perform acceptance testing on the due date, the exclusion for DS1 loops in PM 5c was not taken. Effective with May 2003 results, the Company implemented computer programming changes in the Midwest to prospectively exclude DSL loops greater than 12,000 feet with load coils, repeaters and/or excessive bridge tap for which the CLEC has not authorized conditioning and those load coils, repeaters and bridged tap are determined to be the cause of the trouble. Prior to those implementation dates, the exclusions were technically infeasible due to system limitations and could not be restated. During the period before implementing those program coding changes, not taking those permitted exclusions favored the CLECs.</p> <p>Although the Company also pursued taking these exclusions for the SBC East region, system limitations precluded taking either the acceptance testing or DSL loop length exclusion. Not taking these exclusions favored the CLECs.</p>

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
18	SBC Midwest Provisioning 5c Maintenance 11c, 13c, 13c.1	Identification of installation and repeat reports for the line sharing disaggregations were inaccurate for the months of January through May 2003.	The Company issued change requests to modify the method for setting installation and repeat report flags for line sharing. This was corrected prospectively beginning with June 2003 results. Since the capability did not exist before the changes were in effect, the Company was not able to either assess materiality or restate results for the January through May 2003 time period.
19	SBC Nevada Provisioning 6c	For March 2003 data, the numerator for the UNE Statewide/UNE Loop with LNP disaggregation was misstated due to a manual error which caused the result to be a percentage greater than 100%. There were only two orders for this data point and the correct actual results calculated as a Pass (100%) because both orders met the standard interval.	March 2003 results were misstated due to a clerical data entry error that was not detected during the monthly processing cycle. For the month in error, there were only two orders for this data point and both met the standard interval. There was no chronic miss or payment liability since there was no prior CLEC activity on the data point. The Company did not restate the submeasure because the correct result would have shown a single isolated result with perfect service.
20	SBC East and SBC Midwest Provisioning 7, 8	The Company did not take an allowed exclusion of incremental delay days attributable to the CLEC after the initial SBC caused delay. Taking this exclusion is technically infeasible for the Company due to system limitations.	The Company systems do not have the technical ability to identify incremental delay days attributable to the CLEC after the initial SBC caused delay. Since this is technically infeasible, materiality could not be assessed. The result of not taking this exclusion for additional delay days favored the CLECs.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
21	SBC Midwest Provisioning 7c	For orders where the customer or CLEC does not have a clear due date, the Due Date Objective Date was set to a year of '59 to represent the year 2059. Since some of the legacy systems only retain 2-digit years, the Due Date Objective was saved as 1959, causing the transactions to incorrectly appear as late. This materially affected February 2003 for Illinois and Ohio only.	The effect of this issue was to favor the CLECs by overstating the delay days for missed due dates. The Company determined during the review for materiality, that this only affected the disaggregation for UNE DSL – no line sharing. In the two instances where there would have been a change in parity determination, the results were limited to one order in each affected state. One result went from a miss to a make (Illinois) and another went from a miss to no data to report (Ohio), neither of which affected voluntary payments. Based on this materiality review, results were not restated.
22	SBC Midwest Provisioning 8	The Company did not take the allowed exclusions related to expedites (less than 3 days) due to system limitations for January 2003.	Effective with February 2003 results, the Company implemented a computer program code change to exclude expedites. No restatement was possible due to systems limitations, but not taking the exclusion yielded results that favored the CLECs.
23	SBC East Maintenance 11c	September through November 2003 data for datapoint 23.2300132 (#11c--Percent Repeat Reports Within 30 Days - UNE - Maintenance (Wholesale) - % Repeat Report - UNE - DSL No Line Sharing) was reported late (with the January 20, 2004 submission) due to a table loading error.	The late reporting on this submeasure was due to a manual error that occurred when the table that defines active and inactive data points was updated in October 2003. SBC East corrected the error during a subsequent update. Results were properly tabulated but were not posted so no data was lost. There was no harm to the CLECs nor any payment impact since results were well within performance required by the benchmark.
24	SBC East Maintenance 12a	For January 2003, SBC East was not excluding trouble tickets related to customer provided equipment and wiring.	Beginning with February 2003 results, program coding was implemented that allowed SBC East to properly identify and exclude these trouble reports. Results were not restated as there was no change to the overall parity determination and no impact on payments.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
25	SBC Midwest Maintenance 12a	As required by the changes to the version 3.0 business rules, SBC was to implement a further disaggregation of UNE-P between residence and business. The additional UNE-P disaggregations were omitted in the implementation schedule for version 3.0 business rules. Other changes to PM12a were scheduled to be implemented with March 2003 data and were on time. The Company did not implement the additional disaggregation until reporting the June 2003 data.	When the version 3.0 implementation schedule was submitted to the FCC for approval, the only change cited for PM 12a was combining the Design disaggregations from measure 12b with the POTS disaggregations in the new 12a measure. This change was implemented on time. The Company subsequently determined that the new business rules also required further disaggregating UNE-P between residence and business and that this change had been omitted from the implementation schedule. When the omission was discovered, the new information was promptly provided. SBC believes this was not a late implementation due to omission from the schedule which meant there was no agreed upon implementation date. SBC was already reporting the residence and business disaggregations to the state commissions and CLECs as part of the 271 reporting obligation and those results were available to the FCC on the 271 section of the CLEC Online web site. Performance on those disaggregations was in parity for the March through May 2003 period before the conversion so there was no harm to the CLECs nor any impact on voluntary payments.
26	SBC Midwest Maintenance 13a, 13a.1	SBC was inappropriately excluding wholesale trouble reports for January through April 2003 for the POTS residence and business disaggregations in Illinois, Ohio, and Michigan for PM 13a and for the POTS residence disaggregation in Illinois and Ohio for PM 13a.1.	Measure 13a is diagnostic and carries no parity determination. In performing the materiality analysis, the Company determined that any changes in results for measure 13a.1 were insufficient to alter the parity determination. Since there was no harm to the CLECs nor any impact on voluntary payments the measures were not restated.

## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
27	SBC Midwest Maintenance 13a, 13a.1, 13c.1	For a number of the specials sub-metrics in all 5 states, there was a load error in the inventory file leading to a doubling of the CLEC denominator for PMs 13a and 13a.1 August results as well as a material change in the ILEC data for PM 13c.1 August results.	In assessing materiality, line counts for PM 13a changed but because the measure is diagnostic, there was no parity or payment implication. For PM 13a.1, while there were changes to the counts of lines used to calculate report rates, in no instance did the parity determination change and there was no effect on payments. Results were not restated for either PM 13a or 13a.1. For PM 13c.1, results for Illinois, Indiana, Michigan and Ohio went from a miss to a make. The only payment impact was for Indiana results and will be taken as a credit on the Company's final true up to voluntary payments.
28	SBC East Trunking 15	SBC East did not include data from January 10, 2004 through January 14, 2004 in the January 2004 reported data due to a data link issue.	Trunk blockage results for a total of 25 ILEC and CLEC trunk groups was lost for these days due to a system upgrade on the tandem that inadvertently caused a data link to fail, preventing the proper transmission of results. This did not affect service and only impacted data collection. Network Planning and Engineering reviewed monthly performance reports for those trunk groups during the previous year and for the period immediately following the affected days and found that there were no instances of reportable blockage, so it is unlikely that there were service problems during those days. Since results for the affected days were lost, no restatement was possible. SBC East has never missed the benchmark for this measure so there was no possibility of a chronic miss nor any potential payment liability.



## Report of Management

### Attachment A – SBC Condition 7 Exceptions to Compliance

<u>No.</u>	<u>PMs Affected</u>	<u>E&amp;Y Exception Description</u>	<u>SBC Assertion – Response and Corrective Action for the Described Exception</u>
29	SBC Midwest Billing 18	The Company did not report disaggregated results for electronic data interchange (“EDI”) and billing data tape (BDT) as required by the business rules for January 2003.	In January 2003, the EDI and BDT results were reported as separate disaggregations for the equivalent state PM and results were at 100% so while the results were not properly disaggregated for this one month, there was no impact on parity determination and no harm to the CLECs. Since results would have only continued to show perfect performance, the measure was not restated. This measure was deleted in February 2003 as part of the implementation of the Version 3.0 business rules.
30	SBC East Availability 19	August 2003 data for the EDI/CORBA disaggregation was misstated due to a manual error.	Results were misstated due to an isolated clerical error that transposed two digits in the total number of hours the system was available for that month. Even though the change to the numerator was immaterial, it was sufficient to move the measure from below the 99.5% benchmark to above the target. Results were not restated since there was no chronic miss and no impact to voluntary payments. When this error was detected, SBC East implemented additional controls requiring a review of all manual results to be performed by a supervisor.

## Attachment B

The Company and the FCC Staff agreed to the following definition of the Evaluation Period by Condition, except as noted:

<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
1	Separate Affiliate For Advanced Services	Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP.
2	Discounted Surrogate Line Sharing Charges	Condition sunset prior to January 1, 2003.
3	Advanced Services OSS	January 1, 2003 through December 31, 2003
4	Access to Loop Information for Advanced Services	January 1, 2003 through October 8, 2003
5	Loop Conditioning Charges and Cost Studies	Condition sunset prior to January 1, 2003
6	Non-discriminatory Rollout of xDSL Services - Urban	January 1, 2003 through April 8, 2003 for California, Connecticut, Illinois, Kansas, Michigan, Missouri, Ohio, Oklahoma and Texas  January 1, 2003 through July 13, 2003 for Arkansas and Wisconsin  January 1, 2003 through December 31, 2003 for Indiana  Condition sunset prior to January 1, 2003 for Nevada.
6	Non-discriminatory Rollout of xDSL Services - Rural	January 1, 2003 through October 12, 2003 for California.  January 1, 2003 through December 31, 2003 for Oklahoma  Condition sunset prior to January 1, 2003 for states other than California and Oklahoma.
7	Carrier to Carrier Performance Plan	January 1, 2003 through May 20, 2003 for Nevada  January 1, 2003 through October 20, 2003 for Michigan  January 1, 2003 through November 20, 2003 for Illinois, Indiana, Ohio and Wisconsin  January 1, 2003 through May 20, 2004 for Connecticut  Condition sunset prior to January 1, 2003 for Arkansas, California, Kansas, Missouri, Oklahoma and Texas
8	Uniform and Enhanced OSS	January 1, 2003 through December 31, 2003

## Attachment B

<i>No.</i>	<i>Condition Name</i>	<i>Evaluation Period</i>
9	Restructuring OSS Charges	Condition sunset prior to January 1, 2003
10	OSS Assistance to Qualifying CLECs	Condition sunset prior to January 1, 2003
11	Collocation Compliance	Condition sunset prior to January 1, 2003
12	Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements	Condition sunset prior to January 1, 2003
13	Multi-State Interconnection and Resale Agreements	Condition sunset prior to January 1, 2003
14	Carrier-to-Carrier Promotions: Unbundled Loop Discount	January 1, 2003 through December 31, 2003
15	Carrier-to-Carrier Promotions: Resale Discount	January 1, 2003 through December 31, 2003
16	Carrier-to-Carrier Promotions: UNE Platform	January 1, 2003 through December 31, 2003
17	Offering of UNEs	January 1, 2003 through March 24, 2003
18	Alternative Dispute Resolution through Mediation	Condition sunset prior to January 1, 2003
19	Shared Transport in Ameritech States	January 1, 2003 through December 31, 2003*  Note: The Company considers the evaluation period to have ended March 24, 2003; but nonetheless complied with the Condition for the evaluation period noted above.
20	Access to Cabling in Multi-Unit Properties	Condition sunset prior to January 1, 2003
21	Out-of-Territory Competitive Entry (National-Local Strategy)	Condition sunset prior to January 1, 2003
22	InterLATA Services Pricing	January 1, 2003 through April 8, 2004.

**Attachment B**

<b><i>No.</i></b>	<b><i>Condition Name</i></b>	<b><i>Evaluation Period</i></b>
23	Enhanced Lifeline Plans	January 1, 2003 through January 6, 2003 for Ohio  January 1, 2003 through April 22, 2003 for Indiana  January 1, 2003 through August 26, 2003 for Michigan  January 1, 2003 through December 18, 2003 for Illinois  January 1, 2003 through December 31, 2003 for Arkansas and Texas  Condition sunset prior to January 1, 2003 for California, Connecticut, Kansas, Missouri, Nevada, Oklahoma and Wisconsin
24	Additional Service Quality Reporting	Condition sunset prior to January 1, 2003
25	NRIC Participation	Condition sunset prior to January 1, 2003
26	Compliance Program	January 1, 2003 through December 31, 2003.
	Section 3 of the Compliance Plan attached to the Consent Decree dated March 20, 2003	May 5, 2003 <sup>1</sup> through April 30, 2004

<sup>1</sup> At the direction of the FCC Staff, E&Y reported on the Company's compliance with Sections 1 and 2 of the Compliance Plan attached to the Consent Decree in conjunction with our attestation examination of the Company's compliance with the Merger Conditions for the year ended December 31, 2002. The current Evaluation Period encompasses the Company's implementation of the requirements of Section 3 of the Compliance Plan attached to the Consent Decree.

**SBC/Ameritech Merger Conditions  
2003 Compliance Audit and Agreed-Upon Procedures Reports  
Report Date August 27, 2004**

**Tab 3**

## Report of Independent Accountants

To the Management of SBC Communications Inc.

1. We have examined the effectiveness of SBC Communications Inc.'s (the "Company" or "SBC") controls over compliance with the Merger Conditions<sup>1</sup> during the Evaluation Period<sup>2</sup> based on the criteria set forth in the Merger Conditions and management's assertion, included in the accompanying Report of Management on the Effectiveness of Controls over Compliance with the Merger Conditions ("Report of Management"), that SBC maintained effective controls over the Company's compliance with the conditions set forth in the Merger Conditions for the Evaluation Period based on the criteria set forth in the Merger Conditions, except as noted therein. The Company's management is responsible for maintaining effective controls over compliance with the Merger Conditions. Our responsibility is to express an opinion based on our examination.
2. At the direction of the FCC Staff and the Company, this examination does not address the Company's controls over compliance with Condition 1. Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP.
3. Except as discussed in paragraphs two and four, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's controls over compliance, testing and evaluating the design and operating effectiveness of the controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the effectiveness of SBC's controls over compliance with the Merger Conditions.

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<sup>1</sup> Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)).

<sup>2</sup> The Evaluation Period is described in Attachment A of our Report of Independent Accountants on SBC's Compliance with the Merger Conditions also dated August 27, 2004.

To the Management of SBC Communications Inc.

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4. Our examination disclosed the following related to the Company's controls over compliance with the Merger Conditions for the Evaluation Period:
  - a. The processes used to produce the performance measurements for Condition 7, "Carrier-to-Carrier Performance Plan," did not include certain controls over some data input functions, changes to processes, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis. The Company has not restated certain errors noted on Attachment B of the Report of Independent Accountants on Compliance with the Merger Conditions. Accordingly, we were unable to, and do not, express an opinion on the controls over compliance with the requirement to accurately calculate and remit voluntary payments.
  - b. The processes to provide discounts required by Condition 14, "Carrier-to-Carrier Unbundled Loop Discount" did not include certain controls in the SBC Midwest region<sup>3</sup> to verify that discounts were applied and corrections were made to certain competitive local exchange carrier ("CLEC") accounts within the established time frame of the initial billing.
  - c. The processes to provide discounts required by Condition 15, "Carrier-to-Carrier Promotions: Resale Discount," did not include certain controls to verify that all eligible and requested discounts by CLECs were provided within the established time frames as specified in the Merger Conditions. Control deficiencies were noted in Southwestern Bell Telephone, L.P. ("SWBT") and Pacific Bell Telephone ("PB") related to control processes to ensure that all eligible CLEC lines receive discounts within the established time frame of the initial billing for the service as required by Condition 15 for resold services.
  - d. The processes to ensure the annual compliance report filed in accordance with Condition 26 did not ensure that the Company reported noncompliance related to Condition 15 related to certain CLEC lines in PB not receiving the eligible discount.
5. In our opinion, limited as to the controls over compliance with Conditions 1 and 7 as discussed in paragraphs two and four a of this report, and except for the effect of the control deficiencies described in paragraph four above, the Company maintained in all material respects, effective controls over compliance with the Merger Conditions for the Evaluation Period based upon the criteria set forth in the Merger Conditions.

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<sup>3</sup> The "SBC Midwest region" refers to the states of Illinois, Indiana, Michigan, Ohio and Wisconsin.

To the Management of SBC Communications Inc.

Page 3

6. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Ernst & Young LLP*

August 27, 2004



**SBC/Ameritech Merger Conditions**  
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**Report Date August 27, 2004**

**Tab 4**



**Priscilla Hill-Ardoin**  
Senior Vice President  
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## **Report of Management on the Effectiveness of Controls over Compliance With the Merger Conditions**

Management of SBC Communications Inc. ("SBC" or the "Company") is responsible for establishing and maintaining effective controls over SBC's compliance with the conditions set forth in the Merger Conditions<sup>1</sup> during the Evaluation Period<sup>2</sup>. The controls are designed to provide reasonable assurance to SBC's management and Board of Directors that SBC is in compliance with the Merger Conditions.

Conditions 1, "Separate Affiliate for Advanced Services" of the Merger Conditions is separately reported on by management and is not included in this report at the direction of the FCC.

There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the controls. Accordingly, even effective controls can provide only reasonable assurance with respect to the achievement of the objectives of controls. Further, because of changes in conditions, the effectiveness of controls may vary over time.

SBC has determined that the objectives of the controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions has been achieved.

SBC has assessed its controls over compliance with the Merger Conditions, exclusive of Conditions 1, in relation to the criteria set forth in the Merger Conditions. Based upon this assessment, except for the effect of the control deficiencies described below related to Conditions 7, 14, 15, and 26, SBC maintained, in all material respects, effective controls over compliance with the Merger Conditions during the Evaluation Period based on the criteria set forth in the Merger Conditions.

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<sup>1</sup> Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's (FCC's) Order Approving the SBC/Ameritech Merger. *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999) (SBC/Ameritech Order). Merger Conditions also include the "Compliance Plan of SBC Communications Inc." attached to the "Consent Decree" set forth in the Order and Consent Decree released on March 20, 2003 by the FCC in File No. EB-02-IH-0382 (hereafter Consent Decree).

<sup>2</sup> The Evaluation Period is described in Attachment B of the Report of Management on Compliance With the Merger Conditions.

**Report of Management on the Effectiveness of Controls over Compliance  
With the Merger Conditions – August 27, 2004**

The processes used to provide certain discounts required by Conditions 14, and 15 during the Evaluation Period did not include controls sufficient to verify that all eligible and requested discounts by competitive local exchange carriers (“CLECs”) were provided within the established time frames as specified in the Merger Conditions. The requirement to provide discounts pursuant to Condition 15 sunset in 2002, and the requirement to offer discounts pursuant to Condition 14 sunset in the last six states in 2003. However, the eligible services continue to receive the discount for 36 months after the initial date of service. In the Ameritech region, orders for residential loops were improperly entered as business loops due to an ordering system error that occurred in April 2002 causing errors in discounts owed under Condition 14 until these lines were corrected in June 2003. The Company subsequently implemented an automated solution to identify and correct ordering errors that was performed on a monthly basis until the offer window sunset.

The processes used to produce the performance measurements for Condition 7 during the Evaluation Period did not include requisite controls over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis during the Evaluation Period.

Additionally, the processes used to ensure the annual compliance report filed in accordance with Condition 26 did not ensure that the Company reported noncompliance related to Condition 15 in California in the report.

**Report of Management on the Effectiveness of Controls over Compliance  
With the Merger Conditions – August 27, 2004**

Date: \_\_\_\_\_

8/27/04

SBC Communications Inc.

By: \_\_\_\_\_

Priscilla Hill Ardoin

Senior Vice President – Regulatory Compliance

FCC Corporate Compliance Officer

**SBC/Ameritech Merger Conditions  
2003 Compliance Audit and Agreed-Upon Procedures Reports  
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**Tab 5**

## Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Management of SBC Communications Inc.

We have performed the procedures enumerated in Appendix A, which were agreed to by management of SBC Communications Inc. ("SBC") and the Federal Communications Commission ("FCC"), solely to assist these specified parties in evaluating management's assertion that SBC complied with the requirements set forth in Paragraph 13<sup>1</sup> of Section I of Appendix C of the FCC's Order approving the SBC/Ameritech Merger, CC Docket No. 98-141, released October 8, 1999, as amended by the Second Memorandum Opinion and Order, FCC 00-336, released September 8, 2000, allowing SBC's Incumbent Local Exchange Carriers ("ILECs") to own certain equipment used to provide Advanced Services throughout SBC's service area, ("Paragraph 13 Requirements") during the period from January 1, 2003 to October 8, 2003 ("the Engagement Period"). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The Users agreed that Southwestern Bell Communications Services, Inc. ("SBCS") is included within the scope of these agreed-upon procedures. SBCS, which primarily provided interLATA telecommunications services in the states of Arkansas, California, Kansas, Michigan,<sup>2</sup> Missouri, Nevada, Oklahoma and Texas, also provided Advanced Services during the Engagement Period. SBC and the FCC have agreed that no specific procedures were to be performed for SBCS other than the execution of management representation letters; therefore, no procedures relating to SBCS are included in this report.

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<sup>1</sup> Paragraph 13 of the Merger Conditions states that if the provisions of Paragraph 12 sunset, then SBC shall be required to comply with the provisions listed in Paragraph 13 until 48 months after the Merger Closing Date, October 8, 1999. The Users agree that the provisions of Paragraph 12 sunset on January 8, 2002. The Company has continued to provide Advanced Services from structurally separate affiliates during the Engagement Period and the Company asserts that it therefore complied with the continuing nondiscrimination obligations contemplated by Paragraph 13. The Users agree that the standards specified in Paragraph 13 of the Merger Conditions are applicable to SBC for the 2003 Engagement Period.

<sup>2</sup> SBCS began providing interLATA telecommunications in Michigan effective September 26, 2003.

To the Management of SBC Communications Inc.

For Advanced Services provided by Pacific Bell with respect to the limited deployment of advanced services through fiber-to-the-home technology in the Mission Bay development in California ("Mission Bay fiber-to-the home"), the Users agreed that none of the procedures specified will be performed with the exception of Procedure 9 and the execution of management representation letters. Therefore, Procedure 9 is the only procedure in this report that includes Mission Bay fiber-to-the home in the scope of the procedures performed.

The procedures performed for the Engagement Period and the results obtained are documented in Appendix A. These procedures and the results are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on SBC's compliance with the Paragraph 13 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of SBC and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Ernst & Young LLP*

August 27, 2004

## APPENDIX A

### Results of Agreed-Upon Procedures

**The definitions of the following terms are documented in Appendix B: Advanced Services, Advanced Services affiliate(s), Affiliate, Ameritech, Engagement Period, ILECs, Merger Closing Date, Merger Conditions, Obtain and Users.**

1. Documented, as follows, the procedures used by the ILECs and the Corporate Compliance Officer to identify, track, respond and take corrective action to competitors' complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions.

SBC represented that the following procedures were used by the ILECs and the Corporate Compliance Officer to identify, track and respond to complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions during the Engagement Period. The SBC Compliance Officer directed each business unit officer responsible for compliance with the Merger Conditions to refer any complaints or inquiries regarding compliance with the Merger Conditions to the Executive Director-Regulatory Compliance. The Executive Director-Regulatory Compliance's responsibilities were to require that a listing of all merger-related complaints be maintained, that all complaints be acknowledged and investigated with appropriate input from Legal and the affected business unit and that the resolution be documented. If complaints were found to be related to the Merger Conditions, the Executive Director-Regulatory Compliance reported the complaint to the Corporate Compliance Officer.

SBC represented that no FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; or written complaints made to a state regulatory commission involving alleged noncompliance with the Paragraph 13 Requirements, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards were filed during the Engagement Period. Noted no complaints open as of the beginning of the Engagement Period.

2. Documented that SBC filed notice with the FCC on October 24, 2001 that the Advanced Services OSS requirements of Condition III, Paragraph 15 had been achieved, resulting in sunset of the Advanced Services OSS discount provisions of Condition III, Paragraph 18 in the 13-state SBC operating area, with the exception of Connecticut.

For Connecticut, documented that SBC filed notice with the FCC on September 13, 2002 that the Advanced Services OSS requirements of



Condition III, Paragraph 15 had been achieved, resulting in sunset of the Advanced Services OSS discount provisions of Condition III, Paragraph 18.

3. Obtained and inspected the SBC corporate organizational charts as of October 8, 2003, which included the organizational charts of the ILECs and the Advanced Services affiliates and confirmed with legal and operational representatives of the ILECs and Advanced Services affiliates the legal, reporting and operational corporate structure of the Advanced Services affiliates. Based on inspection of the organizational charts and confirmation with legal representatives, noted that the Advanced Services affiliates were independent from the ILECs.

Based on the review of documentation obtained above, noted that during the Engagement Period there were no changes in the ownership percentages of the Advanced Services affiliates. Noted that as of the end of the Engagement Period, SBC Advanced Solutions, Inc. ("ASI") was 92.52% owned directly by SBC Communications Inc., 6.72% owned by Southern New England Telecommunications Corporation and 0.76% owned by Pacific Telesis Group. Southern New England Telecommunications Corporation and Pacific Telesis Group were both 100% owned subsidiaries of SBC Communications Inc. ASI organizationally reported to SBC Communications Inc.

Also noted that as of the end of the Engagement Period, Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Ohio, Inc., Ameritech Advanced Data Services of Michigan, Inc. and Ameritech Advanced Data Services of Wisconsin Inc. (collectively, "AADS") were 100% owned by Ameritech Corporation, which in turn was 100% owned by SBC Communications Inc. AADS organizationally is managed with ASI.

4. Inquired of SBC management regarding the interfaces, processes and procedures used by Advanced Services affiliates, noting that ASI and AADS used the same interfaces that the ILECs made available to other CLECs for access to the ILECs' Operational Support Systems ("OSS") for pre-ordering, ordering, provisioning and maintenance and repair functions of Advanced Services. Noted that descriptions of the OSS made available to the CLECs can be found on the Internet on the SBC CLEC online site.

Noted that the following interfaces, processes and procedures were used by the Advanced Services affiliates and were made available to all CLECs by the ILECs:

Pre-Ordering

The Advanced Services affiliates used the graphical user interface ("GUT"), Enhanced Verigate, and the application-to-application interface known as Electronic Data Interchange ("EDI")/Common Object Request Broker Administration ("CORBA") during the Engagement Period for pre-ordering and obtaining access to loop make-up information.

#### Ordering and Provisioning

During the Engagement Period, the Advanced Services affiliates provisioned new orders for wholesale DSL transport using High Frequency Portion of the Loop ("HFPL") UNEs or Broadband Service. The Advanced Services affiliates provisioned Frame Relay and Asynchronous Transfer Mode ("ATM") Cell Relay services to its customers over multiple packet switches interconnected with transport facilities. When necessary, the Advanced Services affiliates obtained such transport facilities by ordering special access services from the ILECs or other local exchange carriers.

During the Engagement Period, ASI submitted orders for HFPL UNEs, Broadband Service and access services to the ILECs through the Electronic Data Interchange ("EDI") and Network Data Mover ("NDM") interfaces. The Advanced Services affiliates also submitted some LSRs via the SBC ILEC GUI LSR Exchange System ("LEX"). LEX was available to all CLECs. In some cases, manual LSRs were also faxed into the ILECs pursuant to procedures available to all CLECs.

The Advanced Services affiliates predominantly used NDM as the method to electronically order access services from the ILECs. In some cases, manually faxed access service requests ("ASRs") were submitted to the ILECs per the ILEC requirements available to all CLECs. The Advanced Services affiliates also used the SBC Access Ordering Tool GUI to electronically submit ASRs. The SBC Access Ordering Tool is made available to the Advanced Services affiliates and all CLECs on the SBC Prime Access Internet site. AADS also utilized the BDS Telis Unix Ordering database made available by Ameritech to all CLECs for ordering access services until its retirement on August 2, 2003.

#### Maintenance and Repair

The Advanced Services affiliate used the Electronic Bonding and Electronic Bonding Trouble Admin Toolbar interface made available by the ILECs to all CLECs to submit trouble reports, view updates and obtain completion notifications on maintenance and repair of telecommunications services, UNEs and Broadband Services received from the ILECs.

5. Inquired of SBC management about the functions performed by the Advanced Services affiliates with respect to processing either retail or wholesale customer service orders for Advanced Services. Noted that after receiving the service order information from the ILEC business units performing joint marketing service on behalf of the Advanced Services affiliates, the Advanced Services affiliates perform the following functions for DSL Internet transport orders and non-DSL Advanced Services orders:

- Creation of a service order.

- Identification of the Advanced Services network components, unbundled network elements, telecommunications services and work activities necessary to provision the advanced service to the customer's premises.
- Design of the customer's service.
- Assignment of Advanced Services equipment<sup>3</sup>.
- Creation of the customer record, including an advanced circuit design layout record.
- Submission of the completed service order for interconnection facilities and/or telecommunications services required to provide the customer's advance service via submission of LSRs and/or ASRs to the ILECs.
- Distribution of customer premises equipment (and/or installation, if required).

Once the order is completed, the Advanced Services affiliates pass order information for interconnection facilities and/or telecommunications facilities back to Industry Markets, the ILECs business unit responsible for wholesale activity, using the same interfaces as made available to unaffiliated carriers. The specific information provided consists of the data fields contained on the LSR form used by CLECs for ordering unbundled network elements and the ASR form used by all carriers to order special access circuits from the ILECs.

SBC represented that during the Engagement Period, the following business units within the ILECs provide joint marketing activities for the Advanced Services affiliates that included taking Advanced Services orders from customers on behalf of the Advanced Services affiliates:

- Consumer Marketing Group;
- Business Communication Services;
- Global Markets; and
- Industry Markets.

Documented that ILEC joint marketing representatives are responsible for pre-qualification of availability of Advanced Services, sale of Advanced Services provided by the Advanced Services affiliates and transfer of the customers' Advanced Services orders to the Advanced Services affiliates for completion and performance of follow-up customer care services.

The ILEC joint marketing representatives provide the following information concerning a DSL Internet transport order to the Advanced Services affiliates.

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<sup>3</sup> "Advanced Services equipment" is defined in Condition I, Paragraph 3d of the Merger Conditions.

This information is passed from the ILECs to the Advanced Services affiliates through the Complex Products Service Order System ("CPSOS"):

- General customer information – name, address, customer contact information, and service request notes.
- Account information, customer premises equipment and due dates.
- Theoretical/design information – overall qualification status (red, yellow, green), wire center code and design cable gauge make-up information. This information is also available to CLECs via the loop qualification process.
- Actual loop information – loop length by segment, length by gauge, 26-gauge equivalent loop length, presence of load coils, quantity of load coils, presence of bridge taps, length of bridge taps, presence of pair gain/DLC and qualification status of loop. This information is also available to CLECs via the loop qualification process.

Noted that for non-DSL Advanced Services, the ILEC joint marketing representatives pass information to the Advanced Services affiliates through use of a Common Ordering Information System ("COIS") form. The general categories of data fields passed on the COIS form are the product and order type, general customer information (name, address, customer contact information), billing information, circuit locations, due dates, service features and options selected.

6. Obtained the total number of Advanced Services pre-order inquiries and the total number of Advanced Services facilities orders submitted to the ILECs by the SBC retail operations within the ILECs and the separate Advanced Services affiliates by state for the nine-month period ending September 30, 2003.

SBC represented that 100% of the pre-order inquiries and facilities orders submitted by the Advanced Services affiliates during the Engagement Period were submitted through the interfaces described in Procedure 4. above and that these interfaces were made available to CLECs.

7. No material or immaterial instances of noncompliance were noted during our performance of the Compliance Audit procedures<sup>5</sup> with the local loop information provisions of Condition IV, Paragraphs 19 and 20 of the Merger Conditions.

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<sup>5</sup> "Compliance Audit procedures" refers to the procedures executed by Ernst & Young in order to issue the Report of Independent Accountants dated August 27, 2004 on SBC's compliance with the Merger Conditions.

8. Inquired and documented the following Operation, Installation and Maintenance (“OI&M”) services were made available to unaffiliated Advanced Services providers pursuant to the Merger Conditions prior to January 9, 2002. Also documented that the ILECs continued to make available such OI&M services during the Engagement Period:

- Operations, Installation, and Maintenance Services (“OI&M”) Associated with Collocated Equipment in Physical Collocation Space – including installation, repair and maintenance of the Advanced Services affiliates equipment that is physically collocated in the ILECs’ central offices. OI&M services provided also include verification and continuity testing of tie cabling, not to exceed 48 circuits per central office, monthly. Installation services provided by the ILECs are limited to installing new plug-ins, circuit packs and jumpers within the physical collocation space of the Advanced Services affiliates.
- Connection of unbundled loops to Advanced Services equipment, as defined in the Advanced Services affiliates Interconnection Agreements with the ILECs.
- Physical testing of circuits, as defined in the Advanced Services affiliates Interconnection Agreements with the ILECs.

9. Inquired of SBC management as to which OI&M services, at the customer premises, are provided by the ILECs for their own retail operations in each SBC state, with respect to the offering of Advanced Services. Documented that the ILECs did not offer any Advanced Services during the Engagement Period, except as discussed below, and therefore have not offered any OI&M services at customer premises associated with the Advanced Services.

SBC represented that Pacific Bell began providing Advanced Services on a limited basis through a separate division of Pacific Bell created to facilitate the construction and deployment of the Broadband Passive Optical Network (“BPON”) platform under development in a master-planned community in San Francisco, California known as Mission Bay. Pacific Bell constructed the Mission Bay BPON network entirely of newly placed fiber optics facilities associated with the BPON Fiber to the Home system. Copper facilities were also placed in the Mission Bay development.

With respect to OI&M services performed for Mission Bay BPON service at the customer premises, Pacific Bell would rewire existing jacks for conversion from copper to BPON, or vice versa, but would not install or remove jacks. No other providers offered BPON service in the Mission Bay development during 2003, as such, no comparable OI&M services were provided to unaffiliated providers.

SBC management represented that SNET continued to offer frame relay and cell relay services in Connecticut pursuant to the grandfathered terms of SNET’s

tariff, as required by the Connecticut Department of Public Utility Control. SNET offered frame and cell relay Advanced Services through the resale of ASI-provided services during the Engagement Period, but SNET did not provide any OI&M services at the customer premises with respect to these Advanced Services.

10. No material or immaterial instances of noncompliance were noted during our performance of the Compliance Audit procedures pertaining to providing OSS interfaces for provisioning Advanced Services in accordance with Condition III, Paragraph 15 of the Merger Conditions.

Paragraph 65

Obtained SBC's Annual Compliance Report dated March 15, 2004 for the Engagement Period ended October 8, 2003. Noted that SBC reported no exceptions to compliance with Merger Condition I, Paragraph 13.

## APPENDIX B

### Definitions

**Advanced Services** – means intrastate or interstate wireline telecommunications services, such as ADSL, IDSL, xDSL, Frame Relay, Cell Relay and VPOP-Dial Access Service (an SBC Frame Relay-based service), that rely on packetized technology and have the capability of supporting transmission speeds of at least 56 kilobits per second in both directions. This definition of Advanced Services does not include (1) data services that are not primarily based on packetized technology, such as ISDN, (2) x.25-based and x.75-based packet technologies or (3) circuit switched services (such as circuit switched voice grade service) regardless of the technology, protocols or speeds used for the transmission of such services. (See Merger Conditions, Paragraph 2.)

**Advanced Services Affiliate(s)** – includes any affiliate that provides Advanced Services as defined above. For the following companies, individually or collectively, the agreed-upon procedures as specified in this report were performed: Ameritech Advanced Data Services of Indiana, Inc.; Ameritech Advanced Data Services of Illinois, Inc.; Ameritech Advanced Data Services of Ohio, Inc.; Ameritech Advanced Data Services of Michigan, Inc.; Ameritech Advanced Data Services of Wisconsin Inc.; SBC Advanced Solutions, Inc.; and any other affiliate that provides Advanced Services as defined above. For Southwestern Bell Communications Services, Inc. (“SBCS”), none of the procedures specified in this audit program will be performed. Management of SBCS will execute and provide to the practitioner a management representation letter in the same format as specified in this audit program.

**Affiliate** – means a person that (directly or indirectly) owns or controls, is owned or controlled by or is under common ownership or control with another person. For this purpose, the term “own” means to own an equity interest (or the equivalent thereof) of more than 10 percent (Section 3 of the Communications Act of 1934, as amended).

**Ameritech** – means Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc., collectively.

**Engagement Period** – means the period January 1, 2003 through the October 8, 2003, sunset date of the Condition.

**ILECs** – means Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, Wisconsin Bell, Inc., Pacific Bell, The Southern New England Telephone Company (“SNET”), Southwestern Bell Telephone L.P. (“SWBT”), Nevada Bell and any successor or assign of such company that provides wireline telephone exchange service.

**Merger Closing Date** – October 8, 1999.

**Merger Conditions** – Appendix C of the FCC’s Order approving the SBC/Ameritech Merger – Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commissions Rules, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 4761 (1999).

**Obtain** – When the word “obtain” was used in a procedure, the practitioner acquired and retained, in the workpapers, all documentation unless an exception is noted within this report.

**Users** – the users of this engagement are SBC and the FCC. The users are responsible for the nature, timing, extent and sufficiency of these procedures.